

Attachment B



HUMAN CAPITAL MANAGEMENT:

**Employee Skills Inventories As a Key
to Retaining and Motivating the Right People**

"Effective human capital management is increasingly being identified by global organizations as the single most important success factor."

Merrill Lynch's The Knowledge Web

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Introduction

WorkForce-HCM, known as TheSkillsMatch, is a web-based profiling tool that supports the burgeoning needs of the Human Capital Management (HCM) market. As a skills inventory tool, TheSkillsMatch identifies and communicates the skills, experience, and personal goals of employees and candidates. Employers can use this simple, economical tool both internally to retain, retrain and motivate valuable employees, and identify hiring requirements; and externally to recruit the right candidates. In addition to skills and experience, TheSkillsMatch captures the goals and passions that add value to seasoned workers. The result is a more complete view of the individual, not just a recounting of their work history.

Human Capital Management: The Industry

What is it? A new buzz phrase, maybe - but one that we can all understand. If we define Human Capital in simple terms as "the sum of an individual's skills, knowledge, experience, and motivation," then Human Capital Management is the process of harnessing that accumulated value and applying it in a way that makes sense for a specific business. With such a vast charter, is HCM worth the effort?

A recent report from the Aberdeen Group¹ states that the Human Capital Management (HCM) market, currently valued at about \$120 million this year, is expected to reach nearly \$10 billion by 2003. Aberdeen also concludes "emerging HCM solutions can free Human Capital Management professionals from repetitive, rule-based transactions and allow them to focus on strategic activities. These activities include attracting, developing, and retaining people - the 'human capital' that powers business success..."

Current Realities in Human Resources

Employee Turnover Has Many Costs

Employment is cyclical. Every 10 years we go through a period of major layoffs. The aftermath is widespread distrust among employees. Rebuilding takes time, resources, and commitment. Employee turnover is expensive. The tangible costs alone to replace an employee are between \$10-50 thousand.² Factoring in the "intangibles" (see table) can move the cost well into six figures.³

Inevitably, these employment cycles cause management and HR professionals to look at their hiring, retention, and employee motivation practices. The current economic downturn, for example, has spurred much discussion about the impact of a generational mix on the success of a business. With the projected job growth at 14% but the projected workforce growth at only 12% (this equates to a shortfall of 7 million employees by 2008),⁴ companies are renewing their appreciation for experience that can only be gained through years in the workplace - those businesses lacking a balance have suffered from a shortage of the

The High Cost of Employee Turnover	
Cost	Value
Termination: time and materials used in taking a person off payroll, retrieving keys, badge, etc.	\$1,000
Replacement: cost of hire and orientation	\$10-15,000
Vacancy: cost of lost production over cost of wages	\$20-25,000
Learning Curve Loss: lost production while the new employee "gets up to speed" (estimated at 25-30 percent of the first year's revenue per employee)	\$65-90,000
TOTAL LOSS	\$96-131,000

¹ *Human Capital Management: A Guide to the Market and Software Solutions*, Kathryn Welds, March 2001

² *Keeping the People Who Keep You in Business*, Leigh Branham, AMACOM books, 2001

³ Based on 1997 figures from *Tips & Techniques for Recruiting and Retaining a Stronger Workforce*, Dr. Jac Fitz-Enz. Reported as part of the HR Forum by the Society for Human Resource Management.

⁴ *Working in the 21st Century*, Bureau of Labor Statistics, U.S. Department of Labor, 2001

leaders, mentors, and reliable, seasoned employees who make up an extremely important part of their organization's overall human capital.

What Motivates Employees to Stay?

A recent Hay Group Working Paper on retention⁵ looked at the gap between committed workers and those planning to leave their job in less than two years. Surprisingly, pay was one of the least important issues cited by employees. If pay is no longer the glue that binds employees to their employer, then what is?

In the July 2001 issue of Workforce Magazine⁶, Pam Withers talks about how shifting values are having a stronger than ever impact on employee retention. She identifies six areas that will affect a company's ability to find, attract, and keep great employees in today's world:

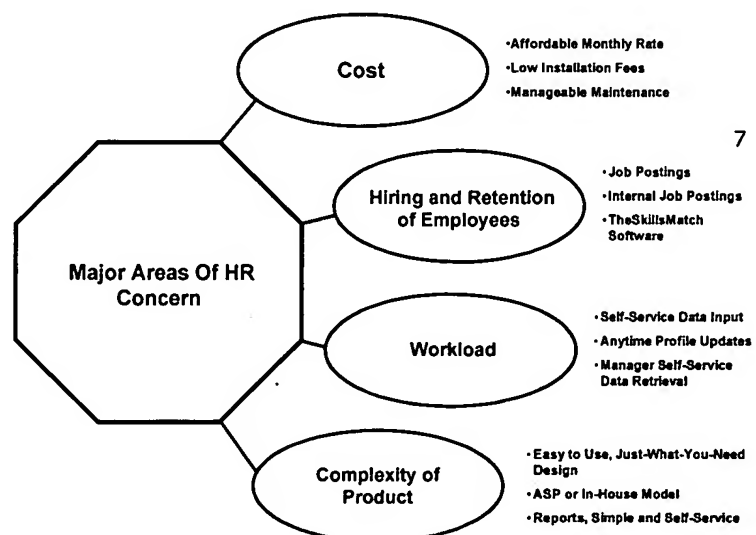
1. A better work/life balance
2. A sense of deeper cause
3. Professional growth and development
4. Employee/employer partnership
5. Community in the workplace
6. Trust in the employer.

The motivation to stay with an employer is also tied to an employee's overall morale, which in turn directly affects his loyalty and willingness to give 110 percent when called on to do so. Strategies for recognizing and capitalizing on the talents of individual employees are extremely important to maintaining the best possible workforce.

Satisfaction with:	Total Percent Satisfied		GAP (%)
	Employees planning to stay for more than two years (%)	Employees planning to leave in less than two years (%)	
Use of my skills and abilities	83%	49%	34%
Ability of top management	74%	41%	33%
Company has clear sense of direction	57%	27%	30%
Advancement opportunities	50%	22%	28%
Opportunity to learn new skills	66%	39%	27%
Coaching and counseling from one's own supervisor	54%	26%	28%
Pay	51%	25%	26%
Training	54%	36%	18%

The HR Dilemma

To deal with these changing rules of retention, Human Resource professionals and managers with Human Capital responsibility have a major task facing them: they must find, evaluate, and implement the best tools available for their business needs. However, shrinking HR resources demand that these tools cannot significantly increase their own workload. To add to the challenge, the solution must be



⁵ *The Retention Dilemma: Why Productive Workers Leave – Seven Suggestions for Keeping Them* (The Hay Group, 2001)

⁶ *Retention Strategies That Respond to Worker Values*, Workforce Magazine, July 2001

⁷ *CareerFables*, June, 2001

relevant to their employees, or all efforts are wasted.

There are other issues impacting the decision-making process, not the least of which is cost. Complex HRIS products may require large up-front expenditures for installation and customization, as well as time and money-consuming training and maintenance: this puts them out of reach for most emerging/small to mid-size companies of 1000 or fewer employees.

A good HR tool should make life better for employees and employers. From the start, it should be designed from the user's point of view: the scenario from the outset should be "I am an HR professional [or line manager] and I have a problem - I must develop a plan to change the way in which I manage human capital in my company. I do not want to solve my problem by introducing an even bigger one in terms of cost, complexity, or additional work." Where do you begin?

The Solution

The Meta Group's MetaView presentation, *Nine Crucial Questions for an HR/Technology Strategy*⁸ examines the need to apply emerging HR trends and requirements to a five-year plan for technology investment. For example, Meta analysts see a trend back to decentralization of certain HR functions; they also see a move towards clearer recognition of HR constituencies (i.e., employees, line managers, and executive management team) and their different needs; and increased employee and manager self-service functionality. According to Meta, if HR is to shed its administrative image and take a more strategic role in the organization, it must get away from the idea that there is one solution: the present and the future will be best served in a series of smaller, carefully prioritized, well conceived and executed increments. Says Mark Huey, Program Director, International Applications Delivery Strategies for Meta Group, there are "so many opportunities to do small things well."

Getting Started

We've established that hiring, retention, and retraining are extremely important to HR professionals. We've also acknowledged that continued employee motivation is key to maintaining the best quality workforce, and that there is a distinct shift from the past in what motivates employees to stay with their employer and remain fully engaged in their work. Given the constraints of cost and smaller HR staff, and factoring in the trends noted by the Meta Group, how can HR organizations begin to "do small things well" without losing site of the overall strategy?

A recent survey showed that of those polled, 36 percent do not believe that their employer understands their skills and goals; 21 percent said there was some understanding; and 27 percent said their employer understands their skills and goals but doesn't care!⁹ Blending HR priorities with the high value that employees place on professional development and the employee/employer partnership, it appears that a better understanding of employee skills might be the right place to start.

TheSkillsMatch: Human Capital Inventory Management

Having current information about employee skills, experience and goals helps an employer make informed decisions and projections about recruitment, retraining, and employee development. The most efficient tool allows the employer to quickly retrieve current information as needed, but the task of data input and maintenance is left to the employee. TheSkillsMatch is a patent pending HCM technology tool that gives HR professionals and line managers a detailed, comprehensive, and up-to-date reporting of employee-profiled skills.

⁸ MetaView moderated by Peter Burris, President & CEO, metagroup.com, March 17, 2000

⁹ CareerFables, July 2001

TheSkillsMatch is currently targeted to meet the needs of emerging/small to mid-sized companies. As self-service data retrieval, managers get the information they need, how they need it, when they need it:

- Skill sets of team members
 - Skills mix of team
 - Recruiting needs
 - Experience range for mentoring programs
 - Educational needs for budgeting
 - Career development guidance
 - Projections for future Human Capital needs/imbalance
 - Management Recruiting/Outplacement
 - Provide available jobs to employees with internal postings
 - Reassign employees based on skills/needs to increase production
 - Promote from within to increase morale and improve bottom-line results
 - Improve retention by understanding current team
 - Identify employees for retraining
 - Pinpoint the employees needed for the future
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With this simple tool, employees can virtually “talk” to their employers about skills that might have gone unnoticed and goals that may have been overlooked. Because TheSkillsMatch is employee self-service, the individual is more engaged in the communication process; because this tool is also self-service retrieval for managers and HR, the company actively demonstrates an interest in the individual, forging an employee/employer partnership.

TheSkillsMatch HCM tool is offered in either ASP or enterprise version. Along with skills profiling, the employee can view internal job postings and the Human Resource Manager can use the same postings for the external website if desired.

TheSkillsMatch is appropriate for Recruiters as well. Recruiting firms can post positions under multiple company identifiers and search the profiled database to locate the most qualified candidates. The talent pool will provide a new source for experienced labor.

Conclusion

Companies of all sizes are learning that they need to do a better job of identifying employee skills and goals in order to retain the best mix possible. Regardless of the state of the economy, it serves business well to understand how to retain and motivate their best talent. Adopting a strategic view of Human Capital Management that includes implementing an HCM tool such as TheSkillsMatch is critical to both the short-term and long-term health of an organization.